

Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554

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SEP 24 2001

FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

In the Matter of)	
Petition of WorldCom, Inc. Pursuant)	
to Section 252(e)(5) of the)	CC Docket No. 00-218
Communications Act for Expedited)	
Preemption of the Jurisdiction of the)	
Virginia State Corporation Commission)	
Regarding Interconnection Disputes)	
with Verizon Virginia Inc., and for)	
Expedited Arbitration)	
)	
In the Matter of)	CC Docket No. 00-249
Petition of Cox Virginia Telecom, Inc., etc.)	
)	
)	
In the Matter of)	CC Docket No. 00-251
Petition of AT&T Communications of)	
Virginia Inc., etc.)	
)	

VERIZON VIRGINIA INC.

VOLUME II OF III

**RECURRING COST PANEL
SURREBUTTAL TESTIMONY**

**SURREBUTTAL TESTIMONY OF
MR. DAVID GARFIELD**

(Public Version)

SEPTEMBER 21, 2001

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Verizon VA Recurring Cost Panel Surrebuttal Testimony

1 **I. INTRODUCTION TO THE SURREBUTTAL PANEL**

2 **Q. Will the members of the panel please state your names?**

3 A. Joseph Gansert, Nancy Matt, Louis Minion, and Gary Sanford.

4

5 **Q. Are you the same individuals that submitted direct testimony in this**
6 **proceeding as part of Verizon Virginia Inc.'s ("Verizon VA's") cost**
7 **panel on July 31, 2001 (the "Verizon Panel Direct")?**

8 A. Yes. However, because Don Albert, one of the Verizon Panel Direct
9 witnesses, has been reassigned to other duties following the events of
10 September 11, 2001, he is not available to participate in this surrebuttal.
11 He accordingly will no longer be a cost witness, and he will be replaced
12 on all cost matters by Joe Gansert.

13

14 **Q. Has each panel member focused on the same issues in this testimony**
15 **as in the Verizon Panel Direct?**

16 A. Yes, except that as explained above, Mr. Gansert will address those issues
17 that Don Albert addressed in the Verizon Panel Direct, including IOF and
18 switching.

19

20 **Q. Mr. Gansert, do you adopt and affirm all of Mr. Albert's direct**
21 **testimony on cost issues in the Verizon Panel Direct?**

22 A. Yes.

23

Verizon VA Recurring Cost Panel Surrebuttal Testimony

1 **Q. Are all terms used in this testimony consistent with the definitions**
2 **provided in the Verizon Panel Direct?**

3 **A. Yes. We have occasionally redefined certain more technical terms here,**
4 **or terms that could be confusing given the context. In addition, we have**
5 **attached a glossary of terms.**

6

Verizon VA Recurring Cost Panel Surrebuttal Testimony

II. SUMMARY OF SURREBUTTAL TESTIMONY

Q. What is the purpose of this surrebuttal panel testimony?

A. The purpose of this testimony is to respond to the Rebuttal Testimony submitted on August 27, 2001, by Michael R. Baranowski, Terry L. Murray, Catherine E. Pitts, Joseph P. Riolo, and Steven Turner on Behalf of AT&T and WorldCom, Inc. (the “AT&T/WorldCom Rebuttal Panel”).

Q. Please summarize this panel’s surrebuttal testimony.

A. As our testimony will demonstrate, the criticisms offered by AT&T/WorldCom, and their revised cost analyses, demonstrate an untenable approach to UNE cost studies that the Federal Communications Commission (the “Commission” or “FCC”) itself does not advocate. In addition, AT&T/WorldCom’s analysis suffers from the fact that none of their witnesses is involved in actually operating or engineering a local exchange (or in some cases any) network. Their criticisms of Verizon VA’s engineering conclusions, operational requirements, workflow processes, technology choices, and their suggested substitutes, accordingly are all entirely speculative and unfounded. We demonstrate how these and other significant flaws seriously undermine the value of AT&T/WorldCom’s criticisms of Verizon VA’s cost factor assumptions, forward-looking outside plant (loop and transport) assumptions, switching costs, OSS costs, and retail avoided costs, and support adoption of Verizon VA’s overall approach and cost studies.

Verizon VA Recurring Cost Panel Surrebuttal Testimony

1 **A. AT&T/WORLDCOM’S CRITICISMS OF VERIZON**
2 **VA’S STUDIES TURN ON AN OVERLY EXTREME**
3 **VIEW OF TELRIC**

4 **Q. Please go into more detail concerning the central shortcomings of the**
5 **AT&T/WorldCom rebuttal testimony. In what manner is**
6 **AT&T/WorldCom’s criticism of Verizon VA’s costing approach**
7 **inconsistent with the Commission’s articulation of TELRIC?**

8 A. First, AT&T/WorldCom adopt a completely untenable view of what these
9 cost studies require. In AT&T/WorldCom’s view, the network to be
10 costed for TELRIC studies should not reflect any of the realities of the
11 existing network, including even the basic routes connecting wire centers
12 to subscribers in the network. Thus, the AT&T/WorldCom Rebuttal Panel
13 devotes a significant portion of its testimony to criticizing Verizon VA for
14 including in its forward-looking network construct the feeder and
15 distribution routes that make up Verizon’s Virginia network.
16 AT&T/WorldCom insist instead that Verizon VA should have employed a
17 “scorched-node” approach in which no component of the network, and no
18 existing route, should be assumed.^{1/}

19
20 As we discuss below and in the accompanying testimony of
21 Drs. Shelanski and Tardiff, this is simply not an economically appropriate
22 interpretation of TELRIC. Moreover, the Commission itself recently

^{1/} *See, e.g.,* AT&T/WorldCom Rebuttal Panel at 12 (advocating
“scorched-node environment” in place of the feeder and distribution routes
determined by the Verizon engineering survey).

Verizon VA Recurring Cost Panel Surrebuttal Testimony

1 noted in a reply brief in the Supreme Court that “TELRIC should take as
2 given the ‘existing network design’”; in this way, the Commission
3 explained, TELRIC addresses incumbent LECs’ concerns that they would
4 not be compensated for the costs of “past decisions regarding the most
5 fundamental aspects of their existing networks.”^{2/} Similarly, in the *First*
6 *Report and Order*, the Commission stated that UNE prices should be
7 based on technology “that is compatible with the [ILEC’s] *existing*
8 infrastructure.”^{3/} The routes connecting subscribers to wire centers
9 unquestionably are fundamental to the “existing infrastructure” of Verizon
10 VA’s network, and thus an appropriate TELRIC cost study should most
11 certainly consider them in calculating costs.

12
13 Moreover, Verizon VA’s existing routes and structures are
14 efficient, and AT&T/WorldCom have provided no evidence whatsoever to
15 the contrary. There is therefore, no reason those routes should undergo
16 any wholesale change in the forward-looking network; indeed, it would be
17 absurd for Verizon VA to change all or even most of its routes and
18 structures. Because these routes will be used in providing network

^{2/} Reply Brief for Petitioners United States and the Federal Communications Commission, *Verizon Communications, Inc. v. Federal Communications Commission*, No. 00-511, at 4-5 (July 23, 2001) (“FCC Reply Brief”).

^{3/} First Report and Order, *In the Matter of Implementation of the Local Competition Provisions in the Telecommunications Act of 1996*, 11 FCC Rcd 15499, 15848-49, ¶ 685 (1996) (emphasis added) (“Local Competition Order”).

Verizon VA Recurring Cost Panel Surrebuttal Testimony

1 elements to CLECs going forward, they are fundamental to the costs that
2 Verizon VA “actually expect[s] to incur in making network elements
3 available to new entrants.”^{4/} Nonetheless, the AT&T/WorldCom Rebuttal
4 Panel counts Verizon VA’s use of existing routes — the most
5 “fundamental aspect” of the network that clearly will not change in the
6 future — among its central criticisms.

8 Similarly, AT&T/WorldCom take Verizon VA to task for
9 considering the costs of equipment that the company uses and intends to
10 use to upgrade its network. AT&T/WorldCom insist, for example, that
11 Verizon VA is guilty of inefficiency, over-recovery, and general wrong-
12 headedness for failing to reflect in its studies the various cost implications
13 that would flow from technology and OSS that hypothetically would
14 permit the unbundling of a stand-alone IDLC loop. At the same time,
15 however, AT&T/WorldCom admit that neither carrier is aware of *any*
16 ILEC that has arrangements permitting the unbundling of stand-alone
17 IDLC loops using currently available technology and *any* method
18 proposed by the AT&T/WorldCom Rebuttal Panel.^{5/} Thus,
19 AT&T/WorldCom recognize that these technologies, which they insist
20 must be assumed in the network, do not now exist and/or are not now
21 deployed by Verizon VA — or by other ILECs. But the Commission

^{4/} *Id.*

^{5/} AT&T/WorldCom Response to VZ-VA 7-26 (August 24, 2001).
(Attachment A.)

Verizon VA Recurring Cost Panel Surrebuttal Testimony

1 itself has recognized that TELRIC is not designed to measure the costs
2 associated with fantasy equipment that *might* be developed or deployed in
3 the future. Rather, as the Commission recently explained to the Supreme
4 Court, TELRIC is designed to capture the costs associated with
5 “equipment that is commercially available today — equipment that
6 carriers are already using to upgrade and expand their networks.”^{6/}

7

8 **B. THE AT&T/WORLDCOM WITNESSES LACK**
9 **RELEVANT LOCAL NETWORK EXPERIENCE TO**
10 **SUPPORT THEIR CRITICISMS AND**
11 **ALLEGATIONS**

12 **Q. Do the AT&T/WorldCom witnesses possess any relevant experience in**
13 **designing, operating, or provisioning local exchange services?**

14 A. No. AT&T/WorldCom’s rebuttal witnesses are not engaged in designing,
15 operating, or provisioning a local exchange network or local exchange
16 services. Although AT&T claims to provide actual local exchange service
17 in Virginia, it has offered no witnesses familiar with that business to
18 support any of its assertions about what is or is not “efficient,”
19 “reasonable,” “typical,” or even “sufficient” in the local exchange
20 network. Nor are any of their witnesses familiar with the Virginia
21 telecommunications market or the requirements imposed on Verizon VA
22 by the Virginia State Corporation Commission.

23

^{6/} FCC Reply Brief at 6.

Verizon VA Recurring Cost Panel Surrebuttal Testimony

1 For example, AT&T/WorldCom witness Murray, who testifies
2 concerning costs associated with OSS, is an economist, not an engineer,
3 and has had no experience with the design of a telecommunications
4 network; Mr. Baranowski, who is an accountant with an expertise in
5 testifying — not designing networks — suffers from the same significant
6 shortcoming. Mr. Riolo left his engineering post at NYNEX in 1992 and
7 has had no experience with designing a local network since that time. His
8 sole design experience since that time, that AT&T/WorldCom could
9 identify, is designing “alternative access to Verizon locations” with
10 collocation space constraints.^{7/} And while he testifies in detail about DLC
11 systems, for example, AT&T/WorldCom concede that “he has not been
12 involved with the purchase of DLC equipment during the past 5 years”^{8/}
13 — or with any aspect of the installation of a DLC system for almost 10
14 years.^{9/} Mr. Turner, similarly, has not even worked for a
15 telecommunications company for almost 5 years.

16
17 The absence of any relevant recent experience significantly
18 undermines the credibility of the AT&T/WorldCom Rebuttal Panel
19 witnesses. In contrast, Verizon VA’s witness panel includes engineers and

^{7/} AT&T/WorldCom Response to VZ-VA 9-10. (Attachment A.)

^{8/} AT&T/WorldCom Response to VZ-VA 10-11. (Attachment A.)

See also AT&T/WorldCom Response to VZ-VA 9-13 (admitting that Mr. Riolo’s experience purchasing DLC equipment ended almost 10 years ago). (Attachment B.)

^{9/} AT&T/WorldCom Responses to VZ-VA 10-19, 21, 22, 23, 24. (Attachment A.)

Verizon VA Recurring Cost Panel Surrebuttal Testimony

1 others who are intimately familiar with an actual, operational local
2 exchange company. The engineering information relied upon in Verizon
3 VA's cost studies is produced by engineers actually responsible for the
4 design and planning of Verizon's network in Virginia and elsewhere.
5 There is simply no question that this data is the most reliable data that has
6 been submitted in these proceedings and should form the basis for the
7 Commission's analysis.

8
9 **C. THE VERIZON MODELS ARE APPROPRIATE TO**
10 **MODEL THE COMPLEX COSTS AT ISSUE IN THIS**
11 **UNE PROCEEDING**

12 **Q. AT&T/WorldCom allege that Verizon's cost models are "difficult and**
13 **cumbersome to work with" and that there is limited ability to trace**
14 **the impact of key cost model inputs. What is your response to this**
15 **and similar complaints they raise concerning the alleged difficulty of**
16 **using the models? [AT&T/WorldCom Rebuttal Panel at 8-9.]**

17 **A.** The criticisms are unfounded. A telecommunications network such as
18 Verizon VA's is very complex and requires significant engineering design.
19 It is only reasonable that a cost model that develops the cost of that
20 network will likewise be complex. Verizon VA provided numerous
21 volumes of instructions on installing and running the models and provided
22 demonstrations of certain models; Verizon VA also has responded to well
23 over 1,000 interrogatories (exclusive of subparts), many of which
24 provided information regarding operation of and inputs to the models.
25 Verizon's costing tools are straightforward and provide usable forward-

Verizon VA Recurring Cost Panel Surrebuttal Testimony

1 looking cost estimates. If a user wishes to change a parameter he or she
2 need only go to the appropriate data input table, make the change in the
3 appropriate cell, and re-run the study. The models are well documented,
4 and virtually every assumption or input can be changed within the model.
5 For example, in using Verizon's Loop Cost Analysis Model (LCAM) to
6 change the fixed and variable components of aerial copper cable cost, one
7 need only go to the appropriate table, make the appropriate change in cost,
8 add a change reason, and press a button to re-run the entire loop study.

9
10 AT&T/WorldCom's complaints are thus unfounded, as are their
11 repeated criticisms of Verizon's use of Oracle as the underlying computer
12 language for the studies; the Modified Synthesis Model utilizes Turbo
13 Pascal, a computer language that is no longer supported, while Oracle
14 remains a widely-used and currently-supported database application.
15 AT&T/WorldCom's complaint is thus trivial at best.

16
17 But even more important is the fact that AT&T/WorldCom's
18 complaints about the difficulty of running the studies are simply a
19 diversion. The fact is, these proceedings are aimed at evaluating a large
20 range of costs for many services and facilities that are provided through an
21 incredibly complex network, and that endeavor is inherently complex.
22 While all parties share an interest in simplifying this process as much as
23 possible, and Verizon VA certainly has sought to do so, UNE rate-setting

Verizon VA Recurring Cost Panel Surrebuttal Testimony

1 is not a simplistic, “pick a number” exercise, much as petitioners wish it
2 were. Indeed, the fact that Congress required state-by-state, individualized
3 UNE cost proceedings under § 252 of the 1996 Act demonstrates that
4 Congress understood that adequately capturing the UNE costs borne by
5 the ILEC is a complex, time-consuming, and fact-intensive process, one
6 that cannot be addressed through the rougher justice of a one-size-fits-all
7 model such as the USF Synthesis Model. Ultimately, therefore, the key
8 question is whether Verizon’s models produce costs that adequately
9 capture its forward-looking costs of providing the UNEs and services at
10 issue. The studies submitted by Verizon in these proceedings meet this
11 requirement, and thus, the criticisms of the studies’ complexity are
12 unavailing, untrue, and irrelevant.

13
14 **D. AT&T/WORLDCOM’S CRITIQUES OF EACH OF**
15 **THE VERIZON VA STUDIES FALL SHORT OF THE**
16 **MARK**

17 **Q. Which studies are addressed in this panel’s testimony?**

18 A. We address AT&T/WorldCom’s criticisms of certain elements of Verizon
19 VA’s overall costing methodology, the outside plant (loop and transport)
20 studies, the switching studies and the OSS studies.

21
22 **Q. Is there any merit to AT&T/WorldCom’s critique of Verizon’s overall**
23 **costing methodology?**

24 A. No. As we show below, AT&T/WorldCom misunderstand or
25 misrepresent the costing methodology. In addition, the approaches they

Verizon VA Recurring Cost Panel Surrebuttal Testimony

1 propose with respect to specific cost elements in most cases have only one
2 unifying logical principle: to lower costs. The specific suggestions and
3 criticisms are unfounded and unsupported, and should be rejected.
4

5 **Q. Do AT&T/WorldCom raise valid criticisms regarding Verizon VA's**
6 **loop and transport cost studies?**

7 A. No. As noted above, a large portion of AT&T/WorldCom's argument
8 focuses on the erroneous contention that the outside plant studies are not
9 forward-looking because they use concrete network route data and assume
10 technology (and OSS) that actually have been developed and deployed,
11 rather than hypothetical substitutes. Their approach is extreme and
12 inconsistent with that adopted by the Commission. Other aspects of their
13 criticism are similarly erroneous. Their attack on the data underlying the
14 loop studies demonstrates a lack of understanding of the relevant database,
15 for example, their critique of Verizon VA's fill factors reflects a lack of
16 familiarity with an operating local network. Verizon VA's fill factors
17 generally are based on its experience serving the Virginia network and
18 complying with the specific regulatory demands in the Commonwealth;
19 they have been stable for many years and there is no sound basis to
20 conclude they will change in the future.
21

22 **Q. Have AT&T/WorldCom discredited Verizon VA's switching studies**
23 **in any way?**

Verizon VA Recurring Cost Panel Surrebuttal Testimony

1 A. No. We show that AT&T/WorldCom's criticisms of Verizon VA's
2 proposed switching costs are unfounded and reflect a misunderstanding of
3 Verizon VA's cost studies. Verizon VA has properly included a mix of
4 new switch purchases and switch modification and upgrades in its studies,
5 contrary to AT&T/WorldCom's claims. Although AT&T/WorldCom
6 claim that SCIS is designed to model only new switches, this is simply
7 untrue. Verizon VA's studies appropriately use SCIS to apply the discount
8 calculated based on new and growth switch purchases to all switching
9 investments. As explained in this panel testimony, Verizon VA's
10 technology assumptions are forward-looking and reasonable, in contrast to
11 AT&T/WorldCom's unrealistic proposals. Finally, Verizon VA accurately
12 categorizes costs according to traffic sensitivity and provides complete
13 explanation for these allocations.

14
15 **Q. Is there any merit to AT&T/WorldCom's attacks on Verizon VA's**
16 **Access to OSS charges?**

17 A. No. Even though Access to OSS is a UNE, AT&T/WorldCom seek to
18 avoid paying for it. First, they try to avoid responsibility for CLEC-
19 caused costs altogether. They contend that Verizon VA should have to
20 bear the "competition-onset" costs itself; in the alternative, they propose a
21 surcharge on all end users, which would unfairly spread CLEC-caused
22 costs over all users. They also fail to recognize that actual, incurred costs
23 can be recovered if they were forward-looking when they were incurred.

Verizon VA Recurring Cost Panel Surrebuttal Testimony

1 Proposing to reject already-incurred costs as “embedded costs,”
2 AT&T/WorldCom would make cost recovery depend on the timing of
3 regulatory proceedings like this one. Second, AT&T/WorldCom raise
4 generic, unsubstantiated attacks on Verizon VA’s OSS access
5 development costs. They do not point to a single system, feature, or
6 change that they contend was unnecessary or inefficient; indeed, Verizon
7 VA has developed its access to OSS functionalities to meet the specific
8 requests and requirements of CLECs. Similarly, AT&T/WorldCom seek
9 to avoid paying for ongoing maintenance costs; again, they propose
10 spreading CLEC-specific costs over all users, by including ongoing OSS
11 costs in Verizon’s annual cost factors. As we show below, their approach
12 is without merit on all these points.

13
14 **Q. Are there any portions of the Verizon Panel Direct that were not**
15 **criticized in any manner in AT&T/WorldCom’s rebuttal testimony?**

16 A. Yes. AT&T and WorldCom did not provide any specific criticisms of
17 Verizon VA’s testimony supporting the costs for provisioning NIDs,
18 EELs, dark fiber, signaling, and SS7 costs.